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North Shore Gas Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Interest Synchronization (App. B p. 7)	Non-Base Rate Revs. & Exps. (Sch. 13.7 N)	()	PEC Officer Costs (Sch. 13.9 N)	Incentive Compensation (App B p. 14)	Capital Additions (Sch. 15.2 N)	Rate Case Expense (Sch. 16.1 N)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Base Rate Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	PGA Revenues	-	(226,316)	-	-	-	-	-	(226,316)
3	Coal Tar Revenues	-	(2,065)	-	-	-	-	-	(2,065)
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	-	(228,381)	-	-	-	-	-	(228,381)
6	Uncollectibles Expense	-	-	-	-	-	-	-	-
7	Cost of Gas	-	(226,316)	-	-	-	-	-	(226,316)
8	Other Production	-	-	-	-	-	-	-	-
9	Distribution	-	-	-	-	-	-	-	-
10	Customer Accounts	-	-	-	-	-	-	-	-
11	Customer Service and Informational Services	-	-	-	-	-	-	-	-
12	Sales	-	-	-	-	-	-	-	-
13	Administrative and General	-	(2,065)	-	(100)	(423)	-	(138)	(2,726)
14	Depreciation	-	-	-	-	-	(72)	-	(72)
15	Storage	-	-	-	-	-	-	-	-
16	Transmission	-	-	-	-	-	-	-	-
17	Taxes Other than Income	-	-	-	-	(14)	-	-	(14)
18	Total Operating Expense	-	-	-	-	-	-	-	-
19	Before Income Taxes	-	(228,381)	-	(100)	(437)	(72)	(138)	(229,128)
20	State Income Tax	25	-	-	7	32	5	10	79
21	Federal Income Tax	110	-	-	32	142	23	45	352
22	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
23	Total Operating Expenses	135	(228,381)	-	(61)	(263)	(44)	(83)	(228,697)
24	NET OPERATING INCOME	\$ (135)	\$ -	\$ -	\$ 61	\$ 263	\$ 44	\$ 83	\$ 316

North Shore Gas Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Subtotal Operating Statement Adjustments	()	Invested Capital Tax (App. B p. 9)	()	()	()	()	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Base Rate Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	PGA Revenues	(226,316)	-	-	-	-	-	-	(226,316)
3	Coal Tar Revenues	(2,065)	-	-	-	-	-	-	(2,065)
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	(228,381)	-	-	-	-	-	-	(228,381)
6	Uncollectibles Expense	-	-	-	-	-	-	-	-
7	Cost of Gas	(226,316)	-	-	-	-	-	-	(226,316)
8	Other Production	-	-	-	-	-	-	-	-
9	Distribution	-	-	-	-	-	-	-	-
10	Customer Accounts	-	-	-	-	-	-	-	-
11	Customer Service and Informational Services	-	-	-	-	-	-	-	-
12	Sales	-	-	-	-	-	-	-	-
13	Administrative and General	(2,726)	-	-	-	-	-	-	(2,726)
14	Depreciation	(72)	-	-	-	-	-	-	(72)
15	Storage	-	-	-	-	-	-	-	-
16	Transmission	-	-	-	-	-	-	-	-
17	Taxes Other than Income	(14)	-	(25)	-	-	-	-	(39)
18	Total Operating Expense	(229,128)	-	(25)	-	-	-	-	(229,153)
19	Before Income Taxes								
20	State Income Tax	79	-	2	-	-	-	-	81
21	Federal Income Tax	352	-	8	-	-	-	-	360
22	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
23	Total Operating Expenses	(228,697)	-	(15)	-	-	-	-	(228,712)
24	NET OPERATING INCOME	\$ 316	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ 331

North Shore Gas Company
Rate Base
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Company Rebuttal Adjusted Rate Base (Exhibit SF-2.1N)	Adjustments (App. B p. 6)	Approved Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant	\$ 380,084	\$ (1,761)	\$ 378,323
2	Accumulated Provision for Depreciation and Amortization	(148,643)	82	(148,561)
3		-	-	-
4	Net Plant	\$ 231,441	\$ (1,679)	\$ 229,762
5	Additions to Rate Base:			
6	Materials and Supplies	1,539	-	1,539
7	Gas in Storage	10,507	(7,521)	2,986
8	Budget Plan Balances	849	-	849
9	Unamortized Rate Case Expense	2,290	(2,290)	-
10	Pension Contribution	1,862	1,862	3,724
11		-	-	-
12	Deductions From Rate Base:			
13	Accumulated Deferred Income Taxes	(45,325)	3,980	(41,345)
14	Customer Advances for Construction	(748)	-	(748)
15	Customer Deposits	(2,860)	-	(2,860)
16	Cash Working Capital	(1,124)	(3,421)	(4,545)
17	Accrued Postretirement Benefits Other than Pensions ("OPEB")	-	(7,094)	(7,094)
18		-	-	-
19		-	-	-
20		-	-	-
21		-	-	-
22		-	-	-
23	Rate Base	<u>\$ 198,431</u>	<u>\$ (16,163)</u>	<u>\$ 182,268</u>

North Shore Gas Company
Adjustments to Rate Base
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Incentive Compensation (App B p. 15)	Cash Working Capital (App B p. 10)	Capital Additions (Sch. 15.2 N)	Gas in Storage Accts Payable (Sch. 15.3 N)	Rate Case Expense (Sch. 16.1 N)	Working Capital Allowance (Sch. 23.1 N)	OPEB Liability (Sch. 14.2 N)	Subtotal Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant	\$ (27)	\$ -	\$ (1,734)	\$ -	\$ -	\$ -	\$ -	\$ (1,761)
2	Accumulated Provision for Depreciation and Amortization	10	-	72	-	-	-	-	82
3		-	-	-	-	-	-	-	-
4	Net Plant	\$ (17)	\$ -	\$ (1,662)	\$ -	\$ -	\$ -	\$ -	\$ (1,679)
5	Additions to Rate Base:								
6	Materials and Supplies	-	-	-	-	-	-	-	-
7	Gas in Storage	-	-	-	(6,098)	-	(1,423)	-	(7,521)
8	Budget Plan Balances	-	-	-	-	-	-	-	-
9	Unamortized Rate Case Expense	-	-	-	-	(2,290)	-	-	(2,290)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12	Deductions From Rate Base:								
13	Accumulated Deferred Income Taxes	-	-	50	-	910	-	3,020	3,980
14	Customer Advances for Construction	-	-	-	-	-	-	-	-
15	Customer Deposits	-	-	-	-	-	-	-	-
16	Cash Working Capital	-	(3,421)	-	-	-	-	-	(3,421)
17	Accrued Postretirement Benefits Other than Pensions ("OPEB")	-	-	-	-	-	-	(7,094)	(7,094)
18		-	-	-	-	-	-	-	-
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (17)	\$ (3,421)	\$ (1,612)	\$ (6,098)	\$ (1,380)	\$ (1,423)	\$ (4,074)	\$ (18,025)

North Shore Gas Company
Adjustments to Rate Base
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Subtotal Rate Base Adjustments	Pension Contribution (Per Order)	()	()	()	()	()	Total Rate Base Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Gross Utility Plant	\$ (1,761)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,761)
2	Accumulated Provision for Depreciation and Amortization	82	-	-	-	-	-	-	82
3	-	-	-	-	-	-	-	-	-
4	Net Plant	(1,679)	-	-	-	-	-	-	(1,679)
5	Additions to Rate Base:	-	-	-	-	-	-	-	-
6	Materials and Supplies	-	-	-	-	-	-	-	-
7	Gas in Storage	(7,521)	-	-	-	-	-	-	(7,521)
8	Budget Plan Balances	-	-	-	-	-	-	-	-
9	Unamortized Rate Case Expense	(2,290)	-	-	-	-	-	-	(2,290)
10	Pension Contribution	-	1,862	-	-	-	-	-	1,862
11	-	-	-	-	-	-	-	-	-
12	Deductions From Rate Base:	-	-	-	-	-	-	-	-
13	Accumulated Deferred Income Taxes	3,980	-	-	-	-	-	-	3,980
14	Customer Advances for Construction	-	-	-	-	-	-	-	-
15	Customer Deposits	-	-	-	-	-	-	-	-
16	Cash Working Capital	(3,421)	-	-	-	-	-	-	(3,421)
17	Accrued Postretirement Benefits Other than Pensions ("OPEB")	(7,094)	-	-	-	-	-	-	(7,094)
18	-	-	-	-	-	-	-	-	-
19	-	-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
23	Rate Base	\$ (18,025)	\$ 1,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (16,163)

North Shore Gas Company
Interest Synchronization Adjustment
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	\$ 182,268 ⁽¹⁾
2	Weighted Cost of Debt	<u>2.37%</u> ⁽²⁾
3	Synchronized Interest Per Order (Line 1 x Line 2)	\$ 4,320
4	Company Interest Expense	<u>4,659</u> ⁽³⁾
5	Increase (Decrease) in Interest Expense	<u>\$ (339)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ 25</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ 110</u>

(1) Source: Appendix B, page 4, column (d), line 23

(2) Source: ICC Staff Exhibit 17.0, Schedule 17.1

(3) Source: Company Exhibit SF-2.14 N, line 3

North Shore Gas Company
Gross Revenue Conversion Factor
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Rate	With Bad Debts	Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.7000%	<u>0.007000</u>	
3	State Taxable Income		0.993000	
4	State Income Tax	7.3000%	<u>0.072489</u>	<u>0.073000</u>
5	Federal Taxable Income		0.920511	0.927000
6	Federal Income Tax	35.0000%	<u>0.322179</u>	<u>0.324450</u>
7	Operating Income		<u>0.598332</u>	<u>0.602550</u>
8	Gross Revenue Conversion Factor Per Order (Line 1 / Line 7)		<u>1.671313</u>	<u>1.659613</u>

North Shore Gas Company
Adjustment to Invested Capital Taxes
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Rate Base	\$ 182,268	Appendix B p.1 line 25
2	Rate of Return	7.69%	Appendix B p.1 line 26
3	Operating Income Required	\$ 14,016	Line 1 x line 2
4	Proforma Operating Income at Present Rates adjusted before ICT adjustment	\$ 14,604	Appendix B p.1, col. (d) line 24 - Appendix B p. 2, col. (l) line (24)
5	Operating Income additional needed	\$ (588)	Line 3 - line 4
6	Invested Capital Taxes Rate	0.8%	Staff Cross Fiorella Exhibit 1
7	Invested Capital Taxes per Order	\$ (5)	Line 5 x line 6
8	Invested Capital Taxes per Staff Rebuttal Testimony	\$ 20	See Notes 1 and 2
9	Adjustment to ICT	\$ (25)	Line 7 - line 8

Note 1

See Exhibit SF-4.5 N. Staff Corrected Company Direct of \$30,000 minus Company rebuttal adjustment of \$10,000 from Exhibit SF-2.13P.

Note 2

This amount represents the Company's rebuttal ICT pro forma adjustment.

**North Shore Gas Company
Adjustment to Cash Working Capital
For the Test Year Ending September 30, 2006
(In Thousands)**

<u>Line</u> (A)	<u>Item</u> (B)	<u>Amount</u> (C)	<u>Lag (Lead)</u> (D)	<u>CWC Factor</u> (E) (D/365)	<u>CWC Requirement</u> (F) (C*E)	<u>Column C Source</u> (G)
1	Revenues	\$ 266,876	41.08	0.11255	\$ 30,036	Appendix B page 11
2	Pensions and Benefits	6,483	(40.92)	(0.11211)	(727)	Appendix B page 12
3	Payroll and Withholdings	11,416	(14.83)	(0.04063)	(464)	Appendix B page 12
4	Inter Company Billings	17,234	(36.78)	(0.10077)	(1,737)	Company Schedule C-13, Page 1 of 2, Column C, Line 14
5	Natural Gas	226,316	(41.84)	(0.11463)	(25,943)	ICC Staff Ex. 13.0, Sch. 13.7 N, Column B, Line 2
6	Other Operations and Maintenance	13,696	(55.35)	(0.15164)	(2,077)	Appendix B page 11
7	Taxes Other Than Income	21,026	(40.28)	(0.11036)	(2,320)	Appendix B page 13
8		-		0.00000	0	
9	Interest Expense	4,320	(91.25)	(0.25000)	(1,080)	Appendix B page 7
10	Federal Income Tax	2,232	(37.88)	(0.10378)	(232)	Appendix B page 1
11	State Income Tax	11	(37.88)	(0.10378)	(1)	Appendix B page 1
12	TOTAL				<u>\$ (4,545)</u>	Sum of Lines 1 through 11
13	Cash Working Capital per Order		\$ (4,545)			Line 12
14	Cash Working Capital per Company		<u>(1,124)</u>			Company Exhibit SF-2.1N, Line 4
15	Difference -- Adjustment		<u>\$ (3,421)</u>			Line 13 minus Line 14

North Shore Gas Company
Adjustment to Cash Working Capital
For the Test Year Ending September 30, 2006
(In Thousands)

<u>Line</u> (A)	<u>Revenues</u> (B)	<u>Amount</u> (C)	<u>Source</u> (D)
1	Total Operating Revenues	\$ 62,646	Appendix B page 1, Line 5
2	PGA Revenue	226,316	ICC Staff Ex. 13.0, Sch. 13.7 N, Column B, Line 2
3	Uncollectible Accounts	(1,975)	Appendix B page 1 Line 6
4	Depreciation & Amortization	(6,094)	Appendix B page 1 Line 14
5	Return on Equity	(14,017)	Appendix B page 1 Line 24
6	Total Revenues for CWC calculation	<u>\$ 266,876</u>	Sum of Lines 1 through 5
7	Total Return on Rate Base	\$ -	Appendix B page 1 Line 24
8	Percentage Equity	56.00%	ICC Staff Ex. 17.0, Schedule 17.1
9	Return on Equity	<u>\$ -</u>	Line 7 times Line 8
10	O & M Expenses	\$ 42,890	Appendix B page 1 Line 19
11	Pensions and Benefits	(4,765)	Company Schedule B-8, Page 1 of 2, Column H, Line 1
12	Payroll and Withholdings	(5,220)	Company Schedule B-8, Page 1 of 2, Column H, Line 2
13	Uncollectible Accounts	(1,975)	Appendix B page 1 Line 6
14	Inter Company Billings	(17,234)	Company Schedule C-13, Page 1 of 2, Column C, Line 14
15	Other Operations & Maintenance	<u>\$ 13,696</u>	Sum of Lines 10 through 13

North Shore Gas Company
Adjustment to Cash Working Capital
For the Test Year Ending September 30, 2006
(In Thousands)

<u>Line</u> (A)	<u>Description</u> (B)	<u>Amount</u> (C)	<u>Source</u> (D)
1	Pensions and Benefits per Company Filing	\$ 6,634	Company Schedule C-11.3, Page 4 of 4, Column C, Line 7
2	Medical & Insurance Cost Adjustment	144	Company Schedule C-2.10, Line 11
3		-	
4	Pension Cost Decrease	(295)	Company Schedule C-2.15, Line 11
5		-	
6	Pensions and Benefits per Order	<u>\$ 6,483</u>	Sum of Lines 1 through 5
7	Direct Payroll per Company Filing	\$ 11,579	Company Schedule C-11.1, Column B, Line 12
8	Annualize O&M Union Wage & Nonunion Merit Increases 2006	93	Company Schedule C-2.13, Line 11
9		-	
10	Annualize O&M Union Wage & Nonunion Merit Increases 2007	167	Company Schedule C-2.14, Line 11
11		-	
12	Adjustment for Incentive Compensation	(423)	Appendix B, page 2, column (f), line 13
13	Direct Payroll per Order	<u>\$ 11,416</u>	Sum of Lines 7 through 12

**North Shore Gas Company
Adjustment to Cash Working Capital
For the Test Year Ending September 30, 2006
(In Dollars)**

Weighted Expense Lead Times per Company's WPB-8, Page 32 of 36

Line	Tax	Amount	Percent of Total Amount	Lead	Weighted Lead	Source
(A)	(B)	(C)	(D)	(E)	(F)	(K)
			(C/sum(C))		(D * E)	
1	FICA	\$ 1,721,804	8.19%	16.70	1.37	Line 1
2	FUTA	11,996	0.06%	76.38	0.04	Line 2
3	SUTA	61,774	0.29%	76.38	0.22	Line 3
4	ICC Gas Rev. (PUF)	320,000	1.52%	(32.99)	(0.50)	Line 4
5	Invested Capital	1,259,560	5.99%	30.03	1.80	Line 5
6	Federal Excise	42	0.00%	73.27	0.00	Line 6
7	GRS Receipts/MUT	7,476,564	35.56%	76.35	27.15	Line 7
8	Energy Assistance	1,565,589	7.45%	42.18	3.14	Line 8
9	Corp. Franchise	24,757	0.12%	179.39	0.21	Line 9
10	Gas Rev./ Pub. Util.	8,337,399	39.65%	6.37	2.53	Line 10
11	Illinois Gas Use	6,543	0.03%	42.55	0.01	Line 11
12	Illinois Motor Fuel	110	0.00%	42.09	0.00	Line 12
13	Property/R. E.	240,105	1.14%	377.39	4.31	Line 13
14	Totals	<u>\$ 21,026,243</u>	<u>100.00%</u>		<u>40.28</u>	

Company WPB-8,
Taxes,
Page 32 of 36:

North Shore Gas Company
Adjustment For Incentive Compensation Expense
For the Test Year Ended September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	<u>Operating Statement Adjustment:</u>		
	Total incentive compensation and bonuses reflected in the 2006 N. Shore test year filing:		
1	Team Incentive Award	\$142,124	ICC Staff Schedule 14.1N, line 7
2	Individual Performance Bonus Plan	32,502	ICC Staff Schedule 14.1N, line 8
3	Short-term Incentive Compensation Plan - Senior Management	N/A	ICC Staff Schedule 14.1N, line 9
4	Incentive compensation adjustment of estimated expense to actual, A & G	16,706	ICC Staff Schedule 14.1N, line 11
5	Officers' incentive compensation and bonuses charged by an affiliate	165,811	ICC Staff Schedule 14.1N, line 12
6	Officers' bonuses	0	ICC Staff Schedule 14.1N, line 13
7	Total 2006 North Shore incentive compensation and bonuses (1)	<u>\$357,143</u>	ICC Staff Schedule 14.1N, line 14
	Total incentive compensation and bonuses allowed by Order		
8	Team Incentive Award	\$ 94,204	Incentive Compensation per Order
9	Individual Performance Bonus Plan	53,107	Incentive Compensation per Order
10	Total incentive compensation and bonuses allowed by Order	<u>\$ 147,311</u>	Sum of lines 8 and 9
11	Percentage of 2006 North Shore incentive comp. and bonuses allowed by Order	41.25%	Line 10 divided by line 7
		(in thousands)	
12	Incentive Compensation Expense Classified as Labor in 2006 per Staff	\$ 314	ICC Staff Schedule 14.1N, line 1
13	Amount allowed by Order	130	Line 12 times line 11
14	Amount disallowed	<u>\$ (184)</u>	Line 13 minus line 12
15	Add: Impact of Payroll Taxes	(14)	Line 14 times 7.65%
16	Restricted Stock Expense	(204)	ICC Staff Schedule 14.1N, line 4
17	Performance Shares Expense	<u>(34)</u>	ICC Staff Schedule 14.1N, line 5
18	Adjustment to Incentive Compensation Expense for Test Year	<u>\$ (437)</u>	Sum of lines 14 through 17

Note (1) ICC Staff Schedule 14.1N, line 10 omitted to arrive at total incentive compensation and bonuses in 2006 North Shore test year filing.

North Shore Gas Company
Adjustment For Incentive Compensation Expense
For the Test Year Ended September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	<u>Rate Base Adjustments:</u>		
1	Capitalized Incentive Compensation per Order	\$ 18	Line 2 times Appendix B page 14 line 11
2	Capitalized Incentive Compensation per Company	<u>43</u>	ICC Staff Exhibit 14.0, Schedule 14.1N, line 2
3	Difference - Adjustment before Depreciation and Payroll taxes	\$ (25)	Line 1 minus line 2
4	Add impact of Payroll Taxes	<u>(2)</u>	Line 3 times 7.65%
5	Difference - Adjustment before Depreciation	\$ (27)	Sum of lines 3 and 4
6	Less: Accumulated Depreciation	<u>10</u>	Note 1, line 12
7	Adjustment Net of Accumulated Depreciation	<u><u>\$ (17)</u></u>	Sum of lines 5 and 6

Note 1. Calculated as:

8	Capitalized Incentive Compensation	25	Line 3, column (c), above
9	Gas Plant In Service, 9/30/06	\$372,639	ICC Staff Exhibit 14.0, Schedule 14.1N, line 9
10	Percentage of Capitalized Incentive Comp. To Gas Plant	0.0068%	Line 8, column (c) divided by line 9, column (c)
11	Depreciation Provision for 2006 - Gas Utility Plant	\$149,832	ICC Staff Exhibit 14.0, Schedule 14.1N, line 11
12	Est. Accumulated Depreciation - Capitalized Incentive Comp.	\$10	Line 10 times line 11